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INTERNAL CONFLICT IN LOYALIST SPAIN • Roberto

THE LOYALIST front in Spain faces two main problems: the defeat of Franco and his allies (who are really his masters); the solution of the intra-party conflict raging among the forces that bar the way to Franco.

The so-called Loyalists are now divided—as they really always were—into two camps:

I. The organizations and individuals that want the immediate institution of an air-tight military-bureaucratic dictatorship, which would tamper with the traditional capitalist socio-economic relations *only* in so far as they have to be disturbed to suit the exigencies of the war.

These organizations are:

a. The Communist Party, which has the hegemony and directing role of this section of the Loyalist front and is an instrument of the Welt-politik needs of the USSR.

b. The Catholic republicans, who are interested in safeguarding the bases of the Church in Spain, in danger of being completely uprooted from the soil of Spain, especially because of the espousal of the rebel cause by a section of the Vatican apparatus.

c. Right-wing social-democrats (Prieto "socialists"), who have always seen the threat of chaos and the ruin of Spain in the social-revolutionary plans of their "left-socialist" brothers and the anarcho-syndicalists, and who are ready to act in the manner of Ebert and Noske to save Spain from anarchy. They have their own plans for the country, providing for the development of the productive forces by private, or semi-private enterprise under Government supervision.

d. Bourgeois republicans, who want a "progressive," modernized Spain. The best of them—that is, those who are not primarily interested in the safety of their property and investments, placed mostly in foreign-run enterprises in Spain—honestly believe that the country is heading for an awful setback as a result of radical attempts to meddle with the capitalist growth of Spain. Of course, they see a similar setback, and the loss of Spanish economic and political independence, in Franco's victory.

II. Opposed to the first set are the organizations that do not want the proposed, and actually developing, bureaucratic military dictatorship

a. either because of their "liberal" fear of any totalitarian rule,
b. or because they know that the purpose of this "anti-fascist" dictatorship is—besides the motive of efficient prosecution of the war—the ruthless and complete suppression of the all political and trade-union trends that presume to stand for a change of the social order.

The groups opposing the developing dictatorship are the Caballero section of the U.G.T., and its political counterpart in the Socialist Party of Spain; the C.N.T.-F.A.I.; the numerically weak and much over-estimated P.O.U.M., which is now really profiting politically by the Communist persecutions; certain groups in the regional political organizations of the bourgeois Republicans.

The proletarian elements in the U.G.T. and the S.P.S. are in a panic. For several years, these organizations have attracted

and supported (by giving them clerical and journalistic employment) a number of young intellectuals: writers, poets, artists, lawyers. These guests of the workers of the S.P.S. have now almost completely deserted to the Communist Party. As an old-timer in the U.G.T. put it: "The rats are abandoning the ship. The ship must be sinking." The otherwise apt illustration is marred by the fact that a good number of the guests remain within the S.P.S. and U.G.T., as representatives and agents of the Stalinist machine. That is true about other component parties of the Labor-Socialist International. But it is hard for an outsider to conceive the incongruousness of the present position of the Spanish Social Democracy.

For years talented young men like Araquistáin—intellectuals of bourgeois derivation — were building up Caballero as the "Spanish Lenin." The Spanish social-democratic workers had remained true to 1900 Kautskyian radicalism (represented by Pablo Iglesias in Spain) long after it had faded away in other European parties. The clever young intellectuals projected themselves into the S.P.S. and U.G.T. (the political and economic organizations of the Spanish Social-Democracy) and "sold" to the earnest Spanish workers the idea of the socialist significance of the Russian Revolution and the U.S.S.R. and an awed belief in the importance of Lenin as a fount of doctrinal wisdom. They convinced the worker members of the S.P.S. and U.G.T. that soon Spain would do what Russia did in 1917-18, and that the Socialist Party of Spain was the Spanish counterpart of the Russian Bolsheviks. The Caballero opposition to the Prieto, Besteiro, Negrín, etc.—the petty-bourgeois elements in the Party and the U.G.T.—grounded itself theoretically on this worship of the Russian Revolution and its symbolic personality: Lenin.

But now Caballero and the proletarian elements in the S.P.S. and U.G.T. are left in the lurch. The social-democratic workers of Spain were really interested—in one way or another—in social change. They now find themselves, theoretically, in the mud. Their Leninist mentors have changed their minds. It appears that Lenin, too, as explained by his oracle in Moscow—has changed his mind on what ought to happen in Spain.

The spectacle of Caballero being deprived of his authority by the Executive Committee of the U.G.T., quietly taken over by the Stalinist guests on the strength of their connection with the Russian Revolution, the Soviet movies and Lenin, is too funny for words. It should be a lesson—a lesson fraught with humor—to other social-democratic parties, some of which are now being sucked in by the C.I. on the basis of the Popular Front and the program of "defence of the Soviet Union." (For example, the first overt act to take over the Socialist Party of Italy has just been made at its National Congress in Paris. In a short while, the S.P.I. will split into: (1) a minority headed by Modigliani, opposing the effective, though officially denied, organizational union with the C.I.; and (2) the majority, either nominally remaining in the Labor and Socialist International to serve as a pro-Communist wedge or, leaving the 2nd International to adhere officially to the C.I., in the manner of the United Socialist Party of Catalonia. "Majority" and "minority" refer to delegates, of course. The Communist infiltration, the quiet usurping of official positions in the Socialist Party of Italy has been going on for several years.)

Partly because Caballero was so cynically kicked out of the Valencia government by the Communist Party, partly because of the general fear inspired by the May provocation in Barcelona,

and the bold Stalinist assassinations and arrests, which continue in spite of protests, there is a sort of defence front forming against the arbitrary acts of the C.P. agents in the government, police and army. But it is really little more than a front for defence.

The U.G.T. and the C.N.T. will never attain widely the union—"revolutionary alliance"—continually asked by the latter. The old time worker members of the U.G.T. who want it will be kicked out by their new, petty-bourgeois officials as anarchists and "trotskyites." Similarly, in the army, at the front, the militia men are forced by the officers to destroy their C.N.T. and S.P.S. cards and join the Communist Party. Similarly, trusted Communist military units are used in proselytizing the population to join the C.P. at the point of the gun. The spreading militarization favors the C.P.

The C.N.T. of June 28 complains: "Anton declared recently that the Communist Party gained 20,000 members in the province of Madrid in two months. He forgot to tell how this increase was obtained. This is how it was done. The Communist Party gave those soldiers that are under its domination orders to utilize the military discipline to gain adherents. Thus we find thousands of cases in which military officers use their authority and the military regulation, not to press the fight against the rebels but to crush revolutionary organizations and reduce the strength of other anti-fascist movements . . . So good were the results of this tactic for that Party that it is now trying to militarize

everything: transport, harvesting, construction, etc. etc. This Party would like to create brigades for everything, because it hopes to be able to place its own men at the head of them and impose its own political program through military discipline. This procedure has shocked all of us in the rear, creating an atmosphere of suspicion and discord, leading to disaster."

The continuation of the war favors the alliance of Prieto, Azaña and the Communist Party. There is also the possibility of an immediate contest for dominance among the three partners in this alliance for the safeguarding of the social-economic status quo in Spain. They all want to be the Spanish Scheidemanns and Noskes. Here too the C.P. is favored. The Communist Party of Spain owes its present important position to the following conditions: its role as the agent of the Soviet Union; its peculiar ethical code and manner of organization, which lend themselves to political intrigue and demagogic manipulation of masses; its capture, in Europe and America, of the management and control of the moral material aid offered to the Loyalist cause by the various liberal and labor organizations. I wish to add another consideration, which I assure you is much more important than it reads. The Communist Party of Spain is gaining in strength and importance because it rises at the present time as a political agency that is sworn—because of its role as an instrument of the USSR—to suppress ruthlessly all attempts to shake the existing social order in Spain and the rest of Europe. And the cause of capitalism is still overwhelmingly popular.

ON THE TRACES OF THE MOSCOW TRIAL

• H. O. Martell

The author of the following article is a member of the "International Committee for Justice and Truth," Prague, before which Wolf gave his testimony. The stenographic report of Wolf's testimony is at the disposal of this and similar committees in New York and other places.

From "Service de Presse et d'Information," Paris

WOLF, A YOUNG MAN of 25, arrived in Prague a short time ago. He had just left the G.P.U. prisons in Leningrad and Moscow. His documents and papers were subjected to a detailed examination, confirming his statements. Many aspects of Wolf's testimony remained incomprehensible till the committee could read the official stenographic reports published after the bloody comedy in Moscow. Then the investigators realized they had found the key to the enigma. They understood how the G.P.U. succeeded in priming the accused for the neatly staged spectacle.

Here is Wolf's story.

He is a German. He was literally born in the Communist Party of Germany; his parents were Communists. He had a blind, almost religious faith in the Party, in the infallibility of its leadership. Several times he was sent by the Young Communist League on short missions to the USSR. In 1931, through the mediation of the known Russian writer Tretiakov, he was sent by the German Party for permanent duty in Russia.

At the order of the agrarian department of the Central Committee of the Communist Party of Germany, he worked for a year as a driver of a tractor in a "commune," a form of col-

lective agricultural exploitation that has now been thrown into discard. On this subject, he wrote enthusiastic articles for Russian papers and a pamphlet, 150,000 copies of which were circulated in Germany by the Party publishing organization, I.A.V. Later he became an instructor in the Volga region. There he made friends with Joersch, a German Communist, who had lived in Russia since 1925, was a member of the C.P.S.U., and lastly, the editor-in-chief of the Communist paper for the German lumber workers in the USSR.

After a short stay in Germany, Wolf was sent back to Russia by the German Communist deputy Putz. He made attempts to establish a German "commune." From November 1932 to February 1933, he travelled for Joersch's paper in the regions where the German lumberjacks worked.

When the situation became critical in Germany, Wolf wanted to return to help in "his comrades' struggle." But the bureaucracy of the C.I. moves slowly, and he did not succeed in arriving in Moscow to obtain permission for the trip till the day after the Reichstag fire and the beginning of the Nazi terror. The C.I. officials did not finally send him to Germany but to Leningrad, to help with the editing of the German "Red Journal."

Now an imperceptible change entered his life. Fresh from the steppe, fresh from association with its simple Russian population and their touching naiveness, he moved into the heavy atmosphere of the directing caste, the Soviet bureaucracy. Here there was no faith. The cynical snicker, the thin smile of the people who know the inside of things, greeted Wolf's earnestness. Here people worked very little, but intrigue was incessant. Here there was no "conviction," no "morality of labor." Every-

body strove for wealth, for *personal* well-being at the expense of the millions of working slaves, a well-being which they themselves called "socialist" in derision.

The naive newcomer did not find it easy to get his bearings in this set. In April 1933, he became a member of the editorial staff of the "Red Journal," then a free contributor. At the same time, he also did some work for the German radio in Leningrad. Then at the recommendation of Bertram, the representative of the Berlin *Rote Fahne*, he presented himself at the broadcasting organization in Moscow. Froumkina, the director, engaged him after the Party had given him a special certificate of confidence. But Wolf was soon pushed aside by the pack of go-getters about him, with the result that he did not receive a high salary, and did not take advantage of the method of provisioning allowed to the Soviet privileged, and did not live in a fine apartment. Wolf did not have foreign money to be able to enjoy the riches of the Torgsin. He did not earn enough roubles to buy at fabulous prices in the so-called free stores. He had to content himself with the same starvation ration that was allowed to the great mass. He had to spend half of his wages for a hotel room, or pass the night in railroad stations in the company of thousands others like him.

His exhausting efforts, insufficient nourishment and the lack of a quiet place where to pass the night undermined his health. He caught the grippe. In December 1934 he was in the hospital. When he left the hospital, his position was gone. He began a novel. The writer Ottwald and the stage director Piscator got him to work on the project of a scenario for a film. Penniless, Wolf lived for several weeks in the home of Friedman, a comrade from Latvia, who translated for a living.

We must recall here that in October 1934, Kirov was assassinated, as a result of the bungling of the G.P.U. provocateurs.

Holland, the head of the Leningrad radio, asked Wolf to return to Leningrad to work for him as an unattached collaborator, with the prospect of steady employment later. Wolf remained blind to the real situation about him. When the stink of the "dictatorship over the proletariat" became too sharp for him, he permitted himself to attack the degeneration of "isolated" individuals. He did not refuse to share the privations of the mass. But he wanted very much to get a room of his own. And he asked to have the German radio in Leningrad use somewhat less timid language against German fascism.

Sudden arrest. Interrogation

He was in this mental state, when, on May 17, 1935, standing in front of the Leningrad radio building, he was roughly seized and thrown into a carriage. The G.P.U.

He shook off his initial fright. It was surely a mistake. The comrades of the G.P.U.—our G.P.U.—would without doubt explain to him what was up, and everything would be cleared up. His expectations were soon confirmed. He was given an amiable reception in the G.P.U. offices. There were formalities, of course, but they were so politely managed. The G.P.U. wanted to know what were his connections. He had so many: Tretiakov, Piscator, Ottwald, Lass, the head of the "Red Journal," Weisskopf—all members of the Leningrad writers' group—and Rudolf of the "Red Journal," who (Wolf did not know) had left Russia and later related in a book his horror and disgust with the Soviet rule.

The G.P.U. agent spoke like a friend: "Confess. You can still fix up everything. You are a Trotskyite, of course. We know it. You lived with Friedman, and Friedman is a Trot-

skyite. Do you know any other Trotskyites? Haven't you had counter-revolutionary dealings with a certain Sosenky?"

Wolf said he lived for several weeks in Friedman's home but did not know much about him. He said he did not know a Sosenky. He denied he was a Trotskyite. He knew little about Trotskyism.

He was treated to a sumptuous meal. The first real meal in a long time. An agent remained to speak to him casually. He asked Wolf if he did not know any workers in Leningrad who might be Fascists. "It's a shame," regretted the agent, "that you will have to spend here the night. Do you think the bench in the service room is wide enough?"

He was given a fine breakfast. He passed the day chatting in a friendly fashion with the agent on duty. Cigarettes were brought to him. A service room with a nice, clean bed was put at his disposal. For it appeared that his presence was still necessary to clear up a number of things. At last a room. During the next five days, he felt quite at ease, though a bit impatient. It is easy to get accustomed to a good living. It is hard to do without it later. Hungry and without shelter, Wolf would have accepted the cell that awaited him more easily if he had not known the days when he ate to satiety, had enough rest and was left untroubled by any questioning in the comfortable service room of the Leningrad G.P.U.

On the sixth day, his valise arrived from the hotel. The G.P.U. took his passport and his literary works, among them the manuscript of a novel on which the C.P. publishing house had already paid him an advance.

The inquisition. Moral and physical tortures

The following day, the easy-life treatment came to an end. At eleven o'clock in the night, he was suddenly undressed, examined, transferred to a cell. Sleep? The light remains there day and night. Every several minutes, a soldier in the service of the G.P.U. looked through the hole in the door. Wolf had hardly fallen asleep when the door suddenly opened, and he was subjected to an interrogation that lasted from 11:30 P.M. to 5 A.M. and started again at 6:30. He was permitted to sit down on a small, narrow, backless iron seat, before a small table. This continued for weeks. He raved, crying for sleep. Every interrogation terminated with his signing a stenographic report in Russian, which he could hardly make out.

He had lived in a Trotskyite's house. He was therefore a Trotskyite himself. That seemed to be established by the G.P.U. Now the G.P.U. were making efforts to turn him into a Gestapo agent. Every question of theirs aimed at that. Their tone was sarcastic. G.P.U. officers took turns in torturing the prisoner. His father a worker? A member of the C.P.G. since its formation and now in a German concentration camp, Ah, that was just a trick of the Gestapo to fool the G.P.U. No, my little prince! Joersch, the editor-in-chief of the Volga lumbermen's paper had confessed everything before he was shot. There was his testimony. Signed.

And every day there was new testimony by the "shot" Joersch. Once upon a time, Wolf had expressed the idea that the lumbermen's paper ought to get itself a radio station. Joersch was supposed to have testified that Wolf wanted to install a broadcasting station in order to get a wireless connection with Germany.

"You also knew Frischbutter?"

Yes, Frischbutter was for a long time the editor-in-chief of the official *Deutsche Zentral Zeitung* in Moscow. Now Frischbutter had been arrested, and Joersch confessed that the editor-in-chief of the German organ of the Party had commissioned

him—Wolf—to organize Nazi assault sections. There was his signature.

Did Wolf want to confront Joersch? Sorry. Joersch was dead. Joersch also confessed that Wolf received foreign money for correspondence sent to Fascist papers.

But it was at the advice of the Party that he contributed those reports—favorable reports—on the Volga region to the newspaper *Tempo*, an Ullstein publication, before Hitler's coming to power! The G.P.U. smilingly insisted on their own version. As far as they were concerned, the democratic publishing house of the pre-Hitler era—with its eminent chief, George Bernhard (now the editor of the combination bourgeois-Stalinist *Pariser Tageszeitung*)—was a Fascist enterprise. The "Trotskyite" had to be transformed into an agent of the Gestapo.

Now his physical tortures began. He could no longer sleep. From the courtyard, from the corridors, from adjoining cells, came the crack of shots, men's pitiful howling, the piercing cries of women dragged toward the execution vault. When the cries became too loud, gas masks were applied to the delinquents. In the middle of the prison yard, rose a slim tower. The prisoners were pushed into this tower. The cries changed to a death-rattle. Death by suffocation? Oh, that was the "Leningrad method," Wolf learned later when he was in the Moscow Loubianka. Outside of his cell there was continued talk about his coming execution.

The G.P.U. granted him a "delay of meditation," 15 days in which to think it over. Threats. "Confess. You can still fix things up." Wolf had not been able to understand the slick methods of the bureaucrats of the pen in the Soviet editorial and radio offices. He could not understand the allusions of the G.P.U.

Fifteen days after, the formal investigation of his "counter-revolutionary activity" came to an end. They got his signature under a pretext. "Nothing to be done with you," an agent told him. "You say 'No' to every question. Imagine what the Soviet government must think of you?"

Wolf was transferred under convoy to the Moscow Loubianka. He was now a man with a troubled mind, and physically a wreck. He knew he was innocent. Excepting for this persisting conviction, everything was in a whirl in his head. Frischbutter and Joersch Gestapo agents? Impossible. But there were their signatures. What must the Soviet government think of him? Perhaps they were that. No, not that old Communist. How much enthusiasm he would put into his work!

On June 21, he was in a cell in the Loubianka, the headquarters of the Moscow G.P.U. There were four plainclothes men in his cell. They offered to transmit for him a letter to the German consul in Moscow. Wolf refused. They threatened him with knives . . . Then the door opened. He was led through the courtyard. There was a crowd of men; one with a bloody blouse; probably a doctor. The men in the courtyard muttered: "A German!" Was it his last hour? His jailers took him by the arm. They led him back. From July 21 to 23 he was in an isolation cell. He wanted to write to the State's prosecutor, but was refused paper.

On the 23rd of July, the G.P.U. examiner announced to Wolf that he would get a chance to confess his misdeeds before a "proletarian" tribunal. Wolf was returned to his cell. He found in the prison Loukianov, formerly the Paris representative of the official Russian Telegraphic Agency (Tass) and later the editor of the *Journal de Moscou*, and an Armenian accused of "seditious discontent." He was shown the signed stenographic

reports of the confessions of the others named in connection with him. But he always insisted on facing the signers.

The G.P.U. continued to tease Wolf. One night a number of them entered his cell. "The cell is too low," shouted one of them. "Where shall we put the nail to hang him from?" Another showed Wolf a document. His death sentence. "It lacks a single signature," he clucked. They left the cell chuckling.

Meanwhile some relative of Wolf's informed the German embassy that all news from him had ceased. The embassy was not greatly interested in the young Communist, but it hoped to catch the G.P.U. in a flagrant infraction of the reciprocal accord of the two governments obliging each to communicate with the other when a citizen of either nationality was arrested. The G.P.U. was alarmed. The staging of the "big trial" was in danger of being disclosed. On the 21st of September, Wolf was transferred to an ordinary prison, the Boutirka. He did not know why. On the 21st of October, the order of expulsion was read to him. He was shipped toward Poland, with a ticket for Berlin and a limited passport issued by the German embassy. At the frontier, the G.P.U. agent who accompanied him handed him the passport. Wolf got out in Warsaw and went to Prague.

He does not know what he escaped. There is no doubt that only the described accidental interference saved him from being presented to the astonished world as a "Trotskyite agent of the Gestapo." But for very little, he might have been ripened enough by the professional efforts of the G.P.U. to recite finally before a tribunal the same confessions that we found so incomprehensible in the Moscow Trial.

The G.P.U. needed a shelterless, starved man for its grand show. Dejected, helpless, humble Wolf seemed to be the man. But the fact of his German nationality spoiled their plan. That was a lesson for them. After this fumble, they took care to choose as extras for their "big trial" only unfortunates who had lost their nationality, to whose defence, therefore no foreign embassy could jump with the idea of serving its own diplomatic purposes in the shrewd undercover game played among the powers.

Nobody better than Wolf understands the words used by prosecutor Vyshinsky in his accusing speech, as he invited the judges to read the stenographic reports of the preliminary investigations. "You will convince yourselves," said Vyshinsky, "of the animal fear with which the accused have tried to avoid confessing . . ." For he knew how this animal fear is shaped in the cells of the G.P.U.

WE wish to thank the several friends who have promised to help to have the International Review appear also in the months of February and July. The struggle continues more difficult than it should be, considering the spreading recognition of the significance of this instrument for socialism. The International Review needs your immediate cooperation. Show the I.R. to your friends. Pass it on to others when you have finished reading it. Send us names of prospective subscribers. Contribute to our sustaining fund. The labor movement is weighed down with quacks and "professionals." The International Review is the organ of the developing self-conscious, clear-sighted movement for the effective abolition of the social order for which the quacks and "professionals" really speak. Join in with the International Review.

In the forthcoming issue you will find, besides articles on timely issues, Martov: Marx and the State, Jonathan Ayres: Who Are the Eaters of Surplus-Value? Sprenger: Social Elements of Bolshevism; analyses of Reynolds: White Sahibs in India and de Santillan's outline of the social-economic program of anarcho-syndicalism in Spain, etc. etc.

CHINESE SOVIETS EXPLAIN

• **Asiaticus**

THE FOLLOWING document is the translation of a letter directed on August 10, 1936, by Mao Tse-tung, the president of the Chinese Soviet government, to the four directing members of the All-China National Salvation Association: Chang Nai-chi, Tao Hsin-chi, Shen Chun-ju and Tsou Tao-fan. Tse-tung's letter is a commentary and answer to a manifesto issued and signed by the four men, on July 15, 1936, declaring that the essential purpose of the Association is to support the Kuomintang and Chiang Kai-shek in the struggle against Japan.

In the trial of several leaders of the All-China National Salvation Association, begun in Soochow on June 11, 1937 on the charge of undermining the security of the State, Shen Chun-ju explained that the object of the Association, organized on May 11, 1936, was to stimulate the mobilization of all the resources and energy of the country toward resistance against Japan. The manifesto issued by the Association proposed the creation of an alliance of all parties and creeds, Communists included. But the manifesto emphasized that the Kuomintang was to remain the leading force. "Shen further denied that the Association had any affiliation with the Communist Party, which fact, he said, could be proved by a letter from Mao Tse-tung, one of the Communist leaders, saying: 'From newspapers I have read the object of the Association.' Of the Sian incident, Shen said, he was ignorant. As to labor strikes in Shanghai, Shen said that the Association had no previous knowledge of them. He admitted, however, that after the outbreak of the strike at a Japanese cotton mill, the Association did organize, at the request of the laborers, a 'relief committee.' Shen denied that the Association had ever used the slogan: 'People's front.' But the term they used, namely 'Unification and National Salvation Front' merely implied the mobilization of all forces for the purpose of resistance against foreign aggression." (From *China Weekly Review*, June 19, 1937.)

The National Salvation Association is obviously an organization of progressive Chinese bourgeois, who are interested in breaking the hold of the Japanese in China. With the Kuomintang facing the need of new alliances to further its program of an independent, progressive, capitalist China, an organization like the Salvation Association may become very important in the near future. In spite of the specious trial at Soochow, it seems likely that the first inspiration for the Association came from Nanking itself.

Mao Tse-tung, on the other hand, speaks for the Chinese Communists, that is, for those professional "politicals" who in China as elsewhere are in the service of Soviet Russia—the great power that, like the United States and Great Britain, is a rival, the most formidable rival, of imperialist Japan in the Far East.

Trotskyites, "left revolutionary-socialist" rediscoverers of Lenin in 1937 and other enthusiasts of that romantic system of social thinking to which popular usage now applies the term "Marxist" (when the Stalinist brand is not meant), will find in Mao Tse-tung's letter: "counter-revolution," the betrayal of Lenin's heritage and other awful things. But the worker who has learned to consider the social situation from the angle of historic materialism and the desire and need of doing away with the system of wage labor, is not deceived by the masquerade that is assumed by a

national capitalism to suit its particular needs in the struggle on the world market.

In 1925, the Soviet Union made a close pact with the leaders of the Chinese Kuomintang, the party of the growing native bourgeoisie of China, the program of which is the political unification and *independent* modernization of the country.

The immediate task of the Chinese nationalists in 1925 was to overcome the generals who ruled with the aid of one or another great power, the various provinces of China. The immediate aim of Soviet Russia in the 1925 pact was to weaken its imperialist opponents on the world scene and especially in Asia. The interests of these powers were served by the generals opposing the Chinese nationalists. In 1925, the opponents of both the Kuomintang and Soviet Russia in China were Great Britain and Japan and the Chinese militarists who were the tools of the latter.

The representative Chinese instrument of Russia in this alliance was, as usual, the Communist Party of China. This party was born and grew strong under the blessing of appropriate verses from Lenin and the supply of adequate funds from the West. The Communist Party of China preached and practiced class collaboration between the Chinese workers and peasants and those of their native masters who were for "national liberation," that is, opposed Great Britain and Japan. On the other hand, the Communist Party incited the workers and peasants of China to seize the land of such proprietors and to strike against such employers that had "imperialist connections." That was the enthusiastic period of "Roar China," when the British, American and Japanese imperialists feeding on China were execrated by good people all over the world and Chiang Kai-shek was toasted as a glorious conquering hero.

Then the moon set.

The Chinese patriots were shrewd allies. The Americans and the British offered them money, which the new central government of unified China needed badly. Furthermore, the Kuomintang, representing the interests of the growing and ambitious Chinese capitalist class, was vitally interested in safeguarding the national political independence of China.

The Chinese Nationalists were afraid that, as a result of the Russian alliance and the spreading influence of the Communist Party, the sworn and true servant of Russia in China, the entire country might help slip into the sort of arrangement that was already then being provided by the Soviet Union to Outer Mongolia, and was later clamped by Japan on Mandchouria, and again by the USSR on the vast Sinkiang. The Chinese patriots dropped their Soviet alliance when they thought they had walked far enough in the company of the Russians.

In 1927—at the moment when the fatherland seemed almost completely unified (excepting for the parts already occupied by Great Britain and Russia) and just when the expressions of affection exchanged by Stalin and the Kuomintang were most cloying—Chiang Kai-Shek, the glorious general of the "Army of National Liberation," began the massacre of the Chinese communists, his dear allies of the day before. The generalissimo was acting for the banking Sung family, the most representative branch of the native capitalist class of China and the brains and will of the Kuomintang.

There is no more fascinating account of this phase of the historic tragic comedy, in which the poor Chinamen continue to be walked over by foreign and native shrewd and powerful, than *Fate of Man (La Condition Humaine)* by Malraux. The typically bohemian outlook of the French radical bourgeois writer, his blindness to historic forces, his inability to probe be-

hind appearances and to deal with more than the psychological analysis of individuals, enable him to produce a masterpiece of narration, where the pitiful stupidity of the Communist serving boys takes on the guise of self-conscious heroism.

The Communist movement was destroyed in the coastal Chinese cities, where native-owned capitalist enterprise was developing in the shadow of the "imperialists'" ventures, and where the Communist movement could reach wage workers.

Now for a long time, the desperation of the starving peasants in the interior of the country expressed itself in the activity of Green Spears, Red Swords, etc., motley bands, armed with ancient weapons and agricultural implements. The Spears and Swords attacked, robbed, killed, and burned the houses of, tax officials, money lenders, the stewards of the big landowners. Here was a movement comparable to the Jacquerie and the English and German peasant revolts. The fine patriotic sentiments voiced by the young intellectuals who did propaganda for the Kuomintang did not have much of an influence on the starving peasants, who continued to be starved, cheated and heavily taxed. The Chinese peasants acted as starved peasants always act in a similar situation. The movement was, of course, disorganized and tended to slip into outright banditry.

With the destruction of the Communist Party in Canton, Shanghai and Hankow, the Soviet strategists turned to the Chinese countryside. Its Chinese representatives moved to the country. Using the money and professional talent at their disposal, they took in hand the Chinese peasants' spontaneous movement of revolt against the landowners, politicians and militarists and bent it to serve the diplomatic purposes of their Soviet employer, who found it essential to continue as a power in the internal politics of China.

Soon there appeared "Soviet" armies and "Soviet governments" in the districts where the revolt of the peasants was strongest. The Russian phraseology, the Russian Communist organization and purposes were fastened on the Chinese peasant rebels.

The "Soviet" territory was like a flood that tended to move from the southeast, where it started, to the northwest. It was a flood that always dried up to the rear of its course. The so-called Soviet territory changed its geographic conditions with the march of the well equipped and rigorously supervised Soviet armies. The direction of the latter was determined by the needs of their ultimate master, the USSR. At the time when the Soviet fliers dropped mock bombs made of sacks filled with soot, on the heads of the Mandchurian Chinese who dared to challenge the Tsarist-acquired hold on the Eastern Chinese Railway, the Chinese Red armies were piddling in the southeast. But when, in 1931, the Japanese took over Mandchuria completely and for good, the Russians countered by strengthening their positions in the Sinkiang. And the Chinese Red armies and the Soviet territory, then started to move toward the northwest. The plan was to come nearer the point of the probable clash with the Japanese, and wreck if possible, the policy, of peaceful opposition to Japanese penetration, chosen by the Nanking (Kuomintang) government because it did not have the strength to do anything more. By 1936 the plan assigned to the Chinese Soviet armies was to occupy the rich province of Kiangsi and its vicinity, to form in time another "People's Soviet State" like Outer Mongolia. This was, of course, only a Soviet version of the grab perpetrated by the British in Tibet and by the Japanese in Mandchouria. Soviet Sinkiang together with Soviet Kiangsi already form today a large market for Russian manufactured goods. What is more important at the present moment—they

offer a military position that flanks the likely thrust of Japan's forces against the Baikal region in the coming Russo-Japanese War.

With the Japanese invasion of Hopei and Chahar, the opportunities of the Nanking government to save its face by compromises with Japan became weaker. There was a greater likelihood that it would attempt to use force against the invader. The possibility of a new alliance between Kuomintang and Communist Russia became stronger. As in 1925, the Chinese Communists will say and do anything that serves the natural needs of Russia. Mao Tse-tung's letter was nominally addressed to the directorate of the All-China National Salvation Association. But it was really meant to be an offer to Nanking, to Chiang Kai-shek, to the Sung family.

Tse-tung boasts and promises. He boasts that the Soviet territory is not as bad as it is painted. He promises to do better. In both instances he speaks for his employer to the Chinese capitalist class.

Mao Tse-tung, the president of the "Communist" government of the Chinese Soviet districts, tells of some plain things he and his fellow professionals have done. Reading his avowals, we cannot but ask ourselves: "What about Miss Smedley's poetic tales of the Chinese Soviets?" But the mercenary, lying publicist will be with us as long as capitalism survives.

The rich, peasants and merchants have not disappeared in the so-called Soviet districts. On the contrary, they were given "good" government, graded taxation, and protection against the "extremist" workers and peasants. The poor peasant has remained poor. As always happens to busted peasants when they try to rob the rich, they were taken in hand by their new, Soviet, masters. In China, this means that they were beheaded or shot when they did not obey the laws laid down for them.

Tse-tung, the president of the Communist government of the Chinese Soviet districts, boasts that the laws proposing worker control of industry in the territory occupied by the Soviet armies have been abolished. He boasts of instituting compulsory arbitration, of seeing to it that there were no "useless" strikes and sabotage in Soviet China. He states with some pride that the Communist politicals are "persuading" the workers in the Soviet districts not to insist on "extreme" demands which the capitalists cannot accept. You can understand how efficiently these Communists can do their "persuading" when they have armed forces at the disposal of their "proletarian," or "peasant and proletarian," dictatorship.

Tse-tung declares that even in the non-Soviet regions, the aim of the Communists is not to "intensify deliberately" the struggle of the workers against the capitalists. In line with the Communist accomplishments in the territory controlled by their arms, Mao Tse-tung, speaking for his government and for the Communist Party of China, promises to respect and defend the landed property and factories of the big landowners, big and small capitalists, and militarists everywhere else in China. The slogan of his party is: "The unity of all anti-Japanese and anti-traitor parties and classes." "As always," says Tse-tung, "we believe that the Chinese capitalists as well as the Chinese workers have a common interest to secure the customs autonomy of China and to struggle against imperialism." For "if foreign imperialism can continue its coercive measures, the conditions of both the Chinese workers and Chinese capitalists have not the possibility of being bettered. It is to the interest of both classes to deepen the struggle against imperialism."

Indeed, we are back in 1925.

II

In China there is both an open and disguised struggle among five camps of capitalists: United States, Great Britain, the State-directed capitalism of the USSR, Japan and the ambitious young Chinese bourgeoisie. The interests of each of these sets are furthered by the political activity of the State serving them. The Japanese and the Russians have entered and annexed parts of China (Russia: Outer Mongolia and Sinkiang; Japan: Mandchouria, Hopei and Chahar) not merely because they are hungry for territory but because they must do so to serve the needs of the capitalist economy of either country.

The Japanese invade China for good capitalist reasons, to get raw material, to make extremely advantageous investments in a backward country that is a huge reservoir of cheap labor and a potential vast market. Specifically, the Japanese capitalists want to begin the exploitation of the rich iron deposits found in China and to organize scientifically, on a vast State-protected basis, the growing of cotton in the plains of North China. But the Japanese economic expansion in China chokes the development of the young, ambitious Chinese capitalism. It spells the destruction of the effective political independence of China. The Chinese therefore refuse the offer of "economic cooperation" made to them by Japanese capital. Because the Japanese program of economic expansion in China is resisted by the Chinese, it is accompanied with a military invasion of the country and territorial annexation. The economic and military invasion of China also clashes with the interests of the United States and Great Britain, and it menaces directly the adjacent USSR.

In the Japanese expansion in China, Russia not merely faces a threat to its Chinese market. Japanese capitalism sees iron, cotton, cheap labor and a vast market in China. But all of that is not safe as long as the Russian bear crouches to the north and directly over Japan itself. Furthermore, to the north is Siberia, unpopulated, untouched, with fabulously rich natural resources. The occupation of territory that will be of paramount strategic importance in the next war over Siberia, is a matter of life or death for Japanese capitalism. It is important for the Japanese to flank the Soviet forces along the long southern frontier of Siberia. That is, it is important for the Japanese army to attempt to seize and break the staff of the Russian pike from a side rather than to rush against its spear-head on the Pacific coast.

Russia attempts to counter this flanking movement of the Japanese, who push more and more to the west and south, by strengthening its military positions in Outer Mongolia, by the annexation of the Sinkiang and the more recent occupation of Kiangsi and the adjoining territory by the Chinese Soviet armies, which are really as Russian as the "people's" army of Outer Mongolia. The Russians hope to do even more for themselves, in the struggle with Japan, by establishing a new, now specifically anti-Japanese, united front in China.

Mao Tse-tung made his promises in August 1936. His letter suggests, as a condition for the reconciliation of the Communists with the Kuomintang, a popular conference elected on a "democratic" basis. Of course, the talk of democracy under Kuomintang supervision is funny. What Mao Tse-tung means is that the Communists ought to be allowed some representation.

Now since August 1936, the oppressed Mohammedan people of Sinkiang have risen in revolt, either with the help of British or Japanese money. (Japanese collusion is more probable.) The Communist plea for a return to 1925 has become more querulous than before. Chiang Ching-kuo, the son of General Chiang Kai-shek, held since 1926 in Moscow, was returned with

pomp to his father, as a personal gift from Stalin. Like old times.

Apparently something like an understanding is being reached. The *Shanghai Mainichi* of June 17 reports—and it is probably correct in this case, because it is a Japanese organ—that Ching-kuo, the recently returned son of General Chiang, is conferring with Chow En-lai, the vice-chairman of the Revolutionary Military Council of the Chinese Soviet, regarding the means of rebuilding a *legalized* Chinese Communist Party. The reorganized Communist party would be radically unlike, even the one that fathered the Soviet Government in Kiangsi (let alone the C.P.C. of 1925). It would abandon the principles it advertised previous to the Sian affair of December 12, 1936. "Gen. Chiang feels," writes the *Mainichi*, "that as long as the Communist party intends to go along with the Kuomintang in creating a new nation, there are no grounds for opposition . . . He appears to be of the opinion that two great parties can exist side by side in the manner followed by other democratic nations." Other subjects being discussed between Chow and the Generalissimo included the selection of Communist delegates to the National People's Congress on November 12, 1937, the adoption of a joint resolution by all factions and the pacification of revolting Mohammedans in Sinkiang.

That is quite natural.

LETTER BY MAO TSE-TUNG

• President of Soviet China

ONLY RECENTLY we read in the newspapers the document issued on July 15 by the four directors of the All-China National Salvation Association, entitled "The Fundamental Conditions and Minimal Demands for the Consolidation of the Country for Struggle Against Foreign Aggression," as well as the declaration and program of the Association.

These documents have evoked much sympathy and interest in the Soviet territory. We believe that they express the opinion of the majority of the Chinese people, who are determined not to permit themselves to be reduced to slavery. That is why I am sending you, as a representative of the Communist Party, of the Soviet government and of the Red Army, my warmest greetings and congratulations.

We agree with your declaration, program and demands, and we shall struggle in common with you and with all other parties, groups and individuals to realize this program and these demands.

You say: "We hope that the Chinese Communist Party will prove its sincere desire to unite with all the anti-Japanese groups and parties by ceasing its attacks against the troops of the government. In the Soviet regions, it should adopt a tolerant attitude to the landed proprietors, the rich merchants and peasants. In the large cities it ought to check all labor conflicts in order to consolidate and reinforce the anti-Japanese forces. Only in this manner can a single front for war against Japan be established."

We agree with you that we ought to act in the way you suggest, and it is in this spirit that we have already acted in the past. Beginning with the incident of September 18, 1931, we have, on many occasions, proposed to all parties and groups the establishment of a single anti-Japanese front. Certain people, however, imagined that this proposal was made only for the purpose of propaganda. The history of the last few years has effectively demonstrated that this opinion was without foundation.

We maintained a united front with the 19th Route army and the popular government of Fukien. More recently, we supported the anti-Japanese position of the leaders of the South-West and declared ourselves to be ready to collaborate with them closely.

We have even suggested to the Kuomintang and all the military leaders in the country to form with us a single anti-Japanese front, and declared that we were ready to negotiate with them with that purpose, at anytime.

It flows clearly from these facts that we are ready, not only in words but also with acts, to unite with all parties and groups in the defence of our fatherland.

Last year we carried on a very difficult struggle to realize our anti-Japanese program. Our plan consisted in concentrating our forces in the province of Hopei and in giving there, alone, without aid, combat to Japanese imperialism. That is why in the Spring of the same year, we advanced toward Shensi province, hoping to be able to pursue there our program. Unfortunately, the government troops, numbering more than 100,000 men, besieged us along the Tatung-Oucheng route. We had at our disposal, at that time, sufficient forces to break the blockade and advance into Hopei province. But that would have led to great sacrifices on both sides. To avoid a senseless civil war, we were obliged to retreat for the time being into the northern part of Shensi province.

In an extremely critical period like the present, at a time when the existence of the entire nation is being threatened, we have no interest in waging a civil war, in which Chinese would fight Chinese. If the central government ceases to attack us, if it ceases to hold back Chinese troops from fighting the Japanese, we declare that we shall not attack the troops of the central government or any other troops.

We shall support them sincerely, with our entire strength, on the single condition that the troops of the central government, or any other troops, really desire to fight the Japanese and do not suppress the patriotic movement of the people.

We have seen how the volunteers of the North-East provinces have struggled against Japan for a long time. As a result of the volunteers' attacks, the Japanese lost more than 100,000 men and many millions of dollars. Thus, the volunteers have, to a certain extent, stopped the advance of Japanese imperialism in Northern China. Though they have not overcome the enemy, they have rendered good service to the nation.

Considered from every point of view, the Red Army is superior to the North-Eastern volunteers; and certainly, the population of North China is no less patriotic than that of the North-East provinces. In view of these facts, how can one say that the Red Army alone cannot fight Japan?

The reverses of the Shanghai War and the anti-Japanese war in Jehol, in the region of the Great Wall, were due to the vacillating and undecided attitude of the military leaders. They failed to adopt guerilla tactics and to establish close contact with the masses of the people. The Red Army, however, has not these faults. That is why we feel that it will not only be able to make war against Japan, but also that it will not be defeated. It could, at least, resist Japanese aggression for a long time. It is evident that with its present forces the Red Army could not completely overcome Japanese imperialism. But it could, nevertheless, continue the war. There is no doubt that all the troops and individuals who want to struggle against Japan would sooner or later join the ranks of the Red Army.

It is correct to say that we ought to unite all the forces of the country to be able to defeat, finally, Japanese imperialism. But it is not correct to say that we can fight Japan only after having

gathered together all the forces of the country. It is possible to start the struggle against Japan even when only a part of our forces is mobilized. Our enemy does not permit us to make complete preparations. He watches carefully over the central and local governments, so that they have no liberty of action. Moreover, the enemy is swallowing up Chinese territory, province by province. Under such conditions, we ought to begin the struggle against Japan without waiting for an all-national mobilization.

Some people say if we undertook the struggle against Japan by ourselves, we would be offering obstacles to the anti-Japanese program of a "certain" party (the Kuomintang). Unfortunately, we are not acquainted with the plan of that "certain" party.

In view of the considerations given above, we demand an immediate war against Japan. We, furthermore, ask to have the Red Army concentrated in the province of Hopei, forming the vanguard of those who struggle against the enemy.

In order to concentrate the national forces and to struggle against Japan, we have revised the laws and policy of the Soviet government. We have, moreover, changed the names of the Worker and Peasant Soviet Government and the Worker and Peasant Red Army to the "People's Soviet Government" and the "People's Red Army."

We have formulated a new electoral law, according to which all petty-bourgeois intellectuals, liberals, specialists, merchants and small industrialists have a right to vote and are eligible for office. All the anti-Japanese elements supporting the Soviet government—parties, groups and mass organizations—may enjoy democratic liberty in the Soviet region. We invite all the anti-Japanese parties and groups to send their representatives to participate in the Soviet government and to share responsibility with us.

We have proposed that the property and land of the rich peasants will not be confiscated in case the peasants rise against Japan. Moreover, we shall not refuse to form a united front with such elements.

The property and factories of merchants and of big and small capitalists will not be confiscated. On the contrary, we shall protect such enterprises, and even help them to develop, in order to augment the disposable material resources in the Soviet region to combat Japan.

The land and property of all the landed proprietors and all the militarists who participate actively in the anti-Japanese war will not be confiscated.

We invite all unemployed officers, soldiers, intellectuals and specialists to come to the Soviet region. We shall give them work and the opportunity to develop their capacities.

We have abolished all unreasonable taxes. The Soviet government levies only a just, uniformly graded tax.

The policy presented above has been decided on and is being applied. We are not hostile to anti-Japanese elements belonging to anti-Japanese elements from other classes that come to our territory.

In the future, while it is carrying on the anti-Japanese war, the Red Army may be called on to advance toward regions controlled by friendly armies. Provided that the Red Army can assure itself of sufficient supplies for its needs, it will submit to all the regulations and laws decreed by the allied army and it will not interfere with the established authority in such regions.

Now we shall consider the labor problems existing in the Soviet region. We have formulated a list of minimal conditions for the amelioration of the standard of living of the workers, taking into account, however, the special conditions existing in the different enterprises and prescribing freely concluded and

mutually respected agreements between capitalists and workers. We shall prohibit any useless strikes and sabotage.

Previous laws, proposing worker control of industry, have been abolished. We are persuading the workers not to insist on extreme demands such as the capitalists would not want to accept.

Also in the non-Soviet regions, though we support proposals to ameliorate the condition of the workers, we deliberately do not intensify their struggle against the capitalists.

As always, we believe that the Chinese capitalists as well as the Chinese workers have a common interest to secure the customs autonomy of China and to struggle against imperialism. If foreign imperialism can continue its coercive measures, the conditions of both the Chinese workers and Chinese capitalists have not the possibility of being bettered. It is to the interest of both classes to deepen the struggle against imperialism.

MAO TSE-TUNG's letter will be completed in the next issue, where it will be compared with other reports recently received by the INTERNATIONAL REVIEW.

MARXISM AND BROOKINGS INSTITUTION

• Paul Mattick

ASIDE FROM minor criticism directed at the series of economic studies undertaken by the Brookings Institution under the general heading *Income and Economic Progress*, these publications have been widely hailed as an important contribution to contemporary economic research. A few details in the studies have met with opposition on the part of some economists. The computing methods and the results have been challenged by others. Still, looking at the whole work from a general point of view, one may venture to say that even the Marxist will be ready to pay homage to the Institution and to the authors of the series, to which there has recently been added the highly valuable volume entitled *The Recovery Problem in the United States*.

Progress in bourgeois economic theory is necessarily limited by the *status quo* desires of the privileged under the capitalist relations. In so far as this "science" can advance, it is thereby doomed to proceed toward its own abolition, that is, to arrive at nothing more than the rediscovery of economic postulates presented to the world 70 years ago by Marx. J. M. Keynes' latest attempt to "revolutionize" bourgeois economy, in his *General Theory of Employment, Interest and Money*, may serve as an example. It led him, as has been widely observed, one step nearer to Marxism, but also at the same time two steps farther away from real understanding. This borrowing from Marxism becomes a necessity even when the economist merely tries to do justice to the factual development; though, of course, the borrowing may be unconscious—as it is obvious that most of the famous economists, Keynes included, have never studied Marx. But unfortunately for them the facts are on Marx's side. The secret of the observable predictive power of Marxian economics lies in its acceptance of the law of value as the determining *inner law* of capitalist development. And inversely, the impotence of present-day bourgeois economy, as distinguished from the classical economists, can be satisfactorily explained by its rejection of an objective measure of value. To accept incidentally, under such conditions, certain details of the Marxian theories makes the bourgeois theoretician only the more ridiculous; just as a naked man merely emphasizes his nudity by putting on one sock. We can understand the critic who referred to Mr.

Keynes' work and his crusading zeal as "an interesting exhibit in the museum of depression curiosities."

The Brookings Institution, fortunately, has no ambition to "revolutionize" bourgeois economy. Basing its theory—such as there is—on nothing more than empirically observed facts, it arrives at statements and conclusions of the highest interest also to Marxists. Notwithstanding the rather pitiful petit-bourgeois sociological outlook, which finds its expression in economic reports calling for a return to good old *laissez-faire* capitalism and its democratic political institutions, and which seems utterly out of place, in view of the material presented, (which permits an entirely different social vision), the work of the Institution offers the case of a real evaluation of the present-day dilemma of capitalism by bourgeois economists.

II

In the third volume of the series, *The Formation of Capital*, H. G. Moulton had already pointed out that most of the errors of classical economy resulted in large part from the circumstance that these economists considered all economic problems from the standpoint of the individual capitalist instead of the total capital. This need for looking at capitalism as a whole, is also one of the main postulates of Marxian economic theory. The atomized economic activity of individual capitalists and capitalist groups must, to be sure, be taken into consideration, but a real understanding of all phenomena connected with this presupposes an analysis of the developmental tendencies of an abstract total capital, conditioned by the law of value. Even if in reality the law of value has to function by way of competition, this latter can explain nothing fundamental, but is itself in need of explanation; and this is furnished by the value concept. Competition is not a key to that understanding, and in fact no explanation of capitalism is possible from the point of view of the individual capitalist.

While Marx started out with the investigation of a single commodity and had already discovered in its twofold value form the whole secret of the grandeur and misery of capitalism, the Brookings Institution uses another method. It adds up the sum total of America's capacity to produce and consume, investigates the formation of its capital in physical as well as in monetary terms, in so far as it was found possible, in order to determine "whether the existing method of distributing the national income tends to evoke from our productive resources the greatest flow of goods and services of which they are capable. Or if certain of our practices in the distribution of wealth introduce maladjustments into the productive system which tends to interfere with its most successful functioning?" Not only here, where Marx starts with the cell form of capitalism and the Brookings Institution with the sum total of economic capacities, does the Brookings method of investigation differ from Marx's. But where the latter studies the determining sphere of production in order to explain the capitalist mode of distribution, the Brookings investigation tries to find out whether the latter interferes with the full development of the productive possibilities. Nevertheless, by following Marx's method and applying it to the actualities of present-day capitalism, we arrive at conclusions quite similar to those presented by the Brookings Institution. And also, any attempt to get at the underlying causes of the symptoms revealed in the Brookings report would lead us finally to the value-character of capitalist production. For these reasons—as we shall see later—although the Brookings investigation does not conclude with a recognition of the contradictions involved in value production, its proposals and predictions are

essentially the same as those Marx had arrived at in his own way, that is, in so far as they deal with capitalist necessities.

The value concept implies a distinction between the physical (natural) and the market form of wealth. The Brookings investigation also makes this distinction, although with less consistency and with an inadequate recognition of its importance. Thus, in *Income and Economic Progress* Moulton writes that "the level of consumption achieved by the people is governed in the last analysis by the volume of goods and services flowing from productive sources into consumptive channels." To Marx also there lies at the base of all real economic understanding the concretizing of all phenomena. All socio-economic problems have to be reduced to their real, material form. For in the last analysis, says Marx, "any nation which ceases to work, if only for a few weeks, would die of hunger. The masses of products, corresponding to the different needs demand different and quantitatively determinate masses of social labor." This situation, dictated by natural laws, Marx offers as proof of the correctness of his value concept and its usefulness as an explanation of the capitalist mechanism. For, he goes on to say, the form "in which this proportional division of labor operates, in a state of society in which the connection of social labor asserts itself as *private exchange* of the individual products of labor, is nothing other than the *exchange value* of these products." To be sure, the Brookings Institution does not conceive such a presentation of the problem, but its conclusions, arrived at from a consideration of the physical side of production and consumption, are very similar to those which flow from an investigation of the problem from the viewpoint of use-value in the Marxian sense. It is true that in capitalist society, it is not the production of use-values, but of profit, which constitutes the determining factor. But it is precisely the incapacity for economic activity in terms of production for use which brings about the existing social distress. It is only by looking at production in the nude, by stripping it of its capital character, that an understanding of present-day society is possible.

III

A commodity has both use-value and exchange-value. The first is of interest to the buyer-consumer, the second to the producer-seller. One aspect expresses, so to speak, the natural property of a commodity, while the other implies a specific social relationship. A recognition of the twofold character of commodities is indispensable to an understanding of capitalist economy, even though in reality, under value production, the two forms of value are completely fused. The road to fortune as well as the road to ruin has its bed in this twofold character existing in commodity values. From the viewpoint of use-value—if we may continue to use that term—human labor creates consumption goods, with the instruments of production. From a value point of view, however, production must be profitable in order to be possible. A smaller capital must become a greater capital; a surplus value must be created by the workers for the owners of the existing capital. This surplus value, expressed in physical terms, is nothing but unpaid labor power.

The appropriation of labor power by the owners of capital is possible because labor power, a commodity for sale like any other commodity, has both use and exchange-value. The worker's wages, the market-price expression of the value of labor power—determined in the last instance by the labor time required for producing the commodities needed to keep the laborer fit for work and able to reproduce himself—are its *exchange value*. But the capitalist, in buying that labor power, gets its *use value*.

The worker is able to produce more than he needs for existence: that is what makes capitalism possible. It is only the surplus value, that is, unpaid labor power, which enables expansion of capital. The mass of the appropriated surplus value determines the rate of capital expansion, or accumulation. We may be pardoned for restating these simple things, as they are essential to any understanding of the dynamics of capitalism, since it is only in the twofold character of the commodity labor power that the secret of capitalist progress, and also of capitalist decline, can be found. The greater the difference between the total social exchange value of labor power, that is, the total wage fund, and the total social use-value of labor power, that is, the sum total of all production, the faster capitalism can accumulate. Prosperity is only another word for an accelerated accumulation; the smaller the share of social production falling to the workers, the greater will be capitalist prosperity, the more can be "saved" in the form of additional capital. Progressive capitalism meant that the purchasing power of the workers *relative to the increasing productivity* fell continuously. All statistics comparing the rise of wages with the growth of productivity prove this fact unmistakably. Even tho the wages of the American workers were higher in 1900 than in 1850, their share of the total social product in 1900 was much smaller than in 1850.

The twofold character of commodities implies a contradiction. Since the value of commodities is determined in the last analysis by the social average labor time necessary for their production, as this production time is reduced the value will be lowered. More use-values will be produced in a given period of time, but the exchange value of each commodity unit drops. As long as the productivity of labor rises faster than the value of the commodities declines, the decrease in the exchange value in the individual commodity is compensated by an increase in the number of the commodities sold. This contradictory movement explains the rise of capitalism as well as why the workers could get higher wages and at the same time could be more exploited. An ever greater part of the labor time fell to the capitalists, thus permitting an increase in productivity by technological development which shortened the labor time necessary for the production and reproduction of labor power, in spite of an increase in the mass of actual commodities which the workers realized in the form of higher wages. The portion of the product falling to the workers increased, but it increased more slowly than their actual output. Without this increase in exploitation, that is, an ever greater mass of surplus value realized from a given number of workers, making possible the exploitation of additional workers, capitalism could not have driven forward. But this it did, embodying in itself the production of an ever greater number of use values, exploiting an ever growing number of wage slaves, appropriating more and still more surplus value, which, stated in a simple way, meant the development of the capitalist world market. To understand capitalism properly means to recognize in it a world problem. To Marxism, capitalist economy is international, and the Brookings Institution, in contradistinction to all the nonsense lately proclaimed by the autarchic illusionists of a capitalist planned economy, is right in stating that "the problem of the distribution of income in relation to economic progress is a world problem."

IV

According to the Brookings report, capital "at one and the same time increases our output of material means of human satisfaction and also displaces laborers who only through their employment gain the right to claim a share of this expanded

product. Unless these workers are reabsorbed at some other point where expansion can be effected, their purchasing power is curtailed or even completely destroyed, and the market for consumption goods is contracted." This situation has brought about the arguments concerning "over production" and "excess-capacity" and also the popular theories to the effect that an increase in the purchasing power of the masses, or a slowing down of technological progress, that is, a total reversal of the previous trends of capitalism, will do away with the present difficulties. Suggestions are being made for more or less conscious intrusions into the market relations; a controlled capitalism is proposed; and various schemes have been devised for this purpose, and some of them even tried out, dealing with money and credit manipulations, restriction of production and artificial price control. All capitalist problems from such points of view are looked for in the sphere of distribution, which is assumed to be out of balance with production. But also to those, writes Moulton, "who would unleash our productive power and accelerate our economic progress, the distribution of wealth and income has become the central concern;" and this is the reason for the investigation of which the results are compiled in the series on *Income and Economic Progress*.

In measuring first the productive capacities of American economy, the Brookings has not based itself, as so often is done, on an evaluation of the productive apparatus alone, but also on labor power, in which it recognizes the only wealth-creating force; for "the maximum for many lines of production is determined by the total number of workers of a particular skill who are available, and the total operations of our economic system as a whole cannot exceed the total labor force available at any given time of peak demand." This point of view is obviously correct, notwithstanding the fact of an ever existing army of unemployed, this latter being one of the necessities of capitalism as well as one of its many calamities. The Brookings summary in relation to the total of productive capacities estimates that "the economic machine operates at the best around 80 per cent of capacity and at the worst at little more than 50 per cent. As a general average, over the fourteen-year period from 1922 through 1935, the productive mechanism by means of which our wants are supplied may be said to have run at little more than two-thirds efficiency." The next question raised is as to why a 100 per cent efficiency was not possible. Rejected as an explanation for this shortcoming are possible difficulties within the productive mechanism itself, as well as difficulties related to consumptive requirements. For, as Moulton states in *Income and Economic Progress*, "the wants of people were far from satisfied during the period of our highest economic achievement. The value of the total national production of goods and services in 1929, if divided equally among the entire population, would have given to each person approximately \$665." A reasonable standard of living for all families would have necessitated an increase in production over 1929 levels of approximately 75 per cent, but even the full utilization of the then existing productive capacity would have permitted no more than a 20 per cent increase. Under such conditions, questions of over-production cannot arise.

Compared with corresponding but more popular statements of the technocratic economic sensationalists, this sad situation seems almost unrealistic. But not so from a Marxist point of view. No other situation is conceivable under capitalism. As Marx relates: "It is not a fact that too many necessities of life are produced in proportion to the existing population. The reverse is true. Not enough is produced to satisfy the wants of the great mass decently and humanely. It is not a fact that too many

means of production are produced to employ the able-bodied portion of the population. The reverse is the case. In the first place, too large a portion of the population is produced consisting of people who are really not capable of working, who are dependent through force of circumstance on the exploitation of the labor of others, or compelled to perform certain kinds of labor which can be dignified with this name only under a miserable mode of production. In the second place, not enough means of production are produced to permit the employment of the entire able-bodied population under the most productive conditions, so that their absolute labor time would be shortened by the mass and effectiveness of the constant capital employed during working hours." According to Marx, capitalism can never reach an economic stage of general abundance; at a certain point in its development, it becomes a hindrance to the further expansion of the productive forces of society. The Brookings report is a confirmation of this thesis. Capitalism will never be able to do away with restriction upon consumption. Even though to the superficial observer a curtailment of production with its accompanying lack of goods and its shortage of workers may appear paradoxically as over-production and excess population, any real investigation of the facts will reveal the true situation and the accuracy of Marx's diagnosis.

V

Not the actual productive capacity or the consumptive requirements can be made responsible for the unsatisfactory functioning of the capitalist mechanism. According to the Brookings Institution, the maladjustment has its cause in a distribution of income which restricts the market for consumers' goods. Too much is "saved," due to the concentration of income; too little is spent by the great mass of the population. This familiar argument is also stated by Marxism. "Accumulate! Accumulate!" begins a paragraph in *Capital*. What is interesting in the Brookings report in relation to this question, however, is the proposed solution, which differs from most of the panaceas developed by the popular under-consumption theories.

There is no actual over-production of commodities. "Production has not year in and year out," in Moulton's opinion, "been in excess of actual consumption, notably in the period of the twenties when production was at its peak. There was no large accumulation of unsold inventories, but rather a notorious growth of hand-to-mouth buying with accompanying low stocks of merchandise. The phenomenon which is called over-production made its appearance, as it ordinarily does, chiefly in the ensuing depression when consumers' purchase fell faster than productive operations could be curtailed." Marxism also considers the over-production of commodities as a result, not as a cause of the crisis typical of capitalist production. It is only in relation to the unutilized productive capacities that the Brookings Institution adduces the unfortunate mechanism for distributing the national income, a mechanism which restricts consumption and so hinders the full efficiency of the productive apparatus. Looking at capitalism from a point of view to which it is foreign, that is, nourishing the illusion that the present economic system is designed to satisfy human needs, Moulton attempts to explain the process of capital formation as based on the growth of the consumptive demands. But he is unable to bring forward convincing proof for this opinion. He says that "an expansion of plant and equipment will not take place in any large way when consumptive demand is declining." In reality, however, expansion of plant and equipment took place in spite and because of the

fact that consumptive demands were declining *relatively* to this expansion. Accumulation is not based on the wants of the people, but on the needs for profit. This fact is somewhat clouded by the circumstance that during the upswing period of capitalism both the productive apparatus and also the consumption fund were growing. But the tempo in the growth of the former was faster than in that of the latter. As regards consumption, the growth was similar to that in the number of workers, which likewise grew with the growth of fixed capital, but slower than the latter. In no other way would capitalist progress have been possible. The consumptive demands do not lead but follow the accumulation of capital. The Marxist can agree with Moulton's statement that "available evidence showed conclusively that new capital is constructed on any significant scale only during periods when consumption is also expanding. In periods of declining consumption the construction of new capital also decreases sharply." But from this it does not necessarily follow that "consumption is of a controlling importance," that "the rate of growth of new plant and equipment in a period of industrial expansion is adjusted to the rate of increase of consumptive demand rather than to the volume of savings available for investment purposes," as Moulton maintains in *Income and Economic Progress*. It was the other way round; an increase in new capital meant an increase in consumptive demands also, and a decline in the construction of new capital reduced the consumptive demands.

Moulton's point of view, which is unacceptable to the Marxist, results from a misunderstanding of the character of capital and hence a failure to get at the real problem, that of the *over-production of capital*. *Income and Economic Progress* states "that between 1922 and 1929 the volume of funds rendered available for investment purposes was increasing rapidly, but that the volume of securities floated for purpose of constructing new plant and equipment remained practically unchanged in amount from year to year. In 1929, the volume of new securities issued for the purpose of actual capital construction plus mortgages was less than 5 billion, while the volume of funds seeking investment was in the neighborhood of 15 billion." This *surplus* in investment money is, however, according to Moulton, a "comparatively new phenomenon in the United States." If that is the case, then this "new phenomenon" cannot be used as an explanation of the statement that "industrial expansion is adjusted to the rate of increase of consumptive demand rather than to the volume of savings available for investment purposes," a situation which is supposed to give rise to a surplus of investment money, whenever the consumptive demands cannot be extended sufficiently; for the capitalist dilemma of today is only an enlarged repetition of previous dilemmas in which such a great surplus of investment money was not discovered. The tremendous size of this surplus is a recent phenomenon in the capitalist development, and for the same reason that the number of workers in relation to the existing capital decreases no longer relatively, but absolutely, a situation which in the United States set in about 1920. Both, a surplus of unusable capital and unemployed workers, are the result of the over-production of capital.

An investigation of *Industrial Profits in the United States*, undertaken by Professor R. C. Epstein and published in 1934, states concerning the rates of profit that "the most surprising thing, on the whole was that no great or sustained upward trend characterizes them between 1922 and 1929." This era has very often been dubbed a "profitless prosperity," and it was in this period that the surplus mentioned by Moulton was piled up. That there was a slowing down in the *rate* of expansion is shown

in the Brookings *Formation of Capital*. The two facts are interrelated, for times of great profits are times of great capital expansion, and a decline in profits is accompanied by a decrease in the rate of accumulation. The rate of profit determines the tempo and extent of capital formation. Moulton has been able to show that "the rate of profit upon capital investment in manufacturing industries as a whole showed a moderate upward trend between 1922 and 1929." This moderate upward trend explains the comparatively moderate rate of expansion during these years. Moulton touches upon the real problem when he says that "the mere fact that the rate of profit showed an increase during these years does not of itself show that the volume of funds available for the expansion of plant and equipment was adequate." "We must ask," he goes on to say, if there "were not even higher rates necessary in order to finance and thus promote a more rapid economic progress?" Certainly, the rate of profit alone explains nothing; it serves only as an index of the mass of profit underlying it. But Moulton has no real answer to this question; he merely restates his assumption "that there was available in the markets throughout the period of the twenties an abundance of funds for purposes of capital expansion." The money supply was apparently in excess of the requirements for plant expansion, but what are the requirements for further expansion? To this question Moulton has no answer, and furthermore, he does not need one, since to him these requirements are set by the consumptive demands, as if capitalism had no other function than to fill the bellies of the population.

Not every amount of capital is usable for further profitable accumulation. The necessary rate for this expansion is based on the previous rate, which has to be surpassed. Each period of accumulation sets a new record in so far as its tempo, its rate, is concerned. Any other rate is unprofitable and no incentive for accumulation. The question is, whether the surplus value can be sufficiently increased to make further advance possible. The answer is not to be sought in the sphere of circulation, but as already stated, is bound up with the contradictions arising in the field of production. And the contradiction here involved is that of obtaining sufficient surplus value to satisfy the needs for accumulation without impairing the value of labor power or reducing the consumptive requirements of the capitalists. Can capital always appropriate enough surplus value, regardless of its own size, to make itself progressively larger? This, and nothing else, is the real problem of capitalism.

The Brookings Institution has not seen this problem, and falls victim to a trick situation arising in a paradoxical system such as capitalism is. Obviously the expansion of capital, which made the periods of prosperity possible, meant the enlargement of its productive apparatus. The greater it became, the greater the need for additional capital, that is, surplus value; since the amount of the latter has to be adequate to the size attained by the existing productive apparatus, which from a value point of view can only temporarily be reduced by way of crisis and depression. Even if the amount of surplus value grows simultaneously with the productive apparatus, this very growth is converted into its opposite after capital has reached a certain size. And this brings us to the problem of the falling rate of profit, which accompanies the process of capital expansion. Surplus value—that is surplus labor—is determined by the wage capital and the rate of exploitation. And the rate of exploitation is determined by the difference between what is necessary to enable the workers to live and what they actually produce. The more workers and the less they are paid in the form of wages, the greater the surplus value. But the rate of profit is determined by the surplus

value in relation to the total capital. If the total capital increases faster than the portion invested in wages—as it does—then the rate of profit must decline. But if the productivity of labor increases faster than the rate of profit falls, due to the more rapid increase of the total capital with respect to the wage fund, then the fall in the rate of profit is harmless to capital, since it is compensated by an increase in the mass of profit. This sounds complicated, but it isn't; the complication is only the consequence of the contradiction involved in the law of value, which means a decrease of exchange value following an increase in use value. Everyone knows, and the Brookings report proves it, that capital invested in means of production—or, to use another term, fixed capital—has throughout capitalist history grown faster than the part of capital invested in wages. Since only the wage-fund is wealth creating—a fact which also is recognized by the Brookings Institution—then if it were not for an ever accelerated increase in the productivity of labor, profits must become smaller in relation to the growth of capital. Only an increase in exploitation, or a reduction of the size of capital, can relieve the situation.

Reducing the size of capital, or, to use a Marxist term, lowering the organic composition of capital, is only temporarily possible; this is a process involving devaluation and bankruptcies during the crisis. The depression period witnesses the attempts to switch this destructive phase of capitalism over into a new period of advance. This new prosperity, sought during the depression, necessitates a reorganization of capital and an increase in its productivity, which means the re-establishment of a sufficient profitability on a lower value-price level for those capitals which have pulled through the crisis. If this is possible, additional capital will be invested, an economic activity sets in which by its own momentum continues to operate on this new value-price level beyond the point of profitability, and ends again, by reason of this momentum, in a new crash. The smaller the magnitude of the total capital the easier it is to overcome the crisis. Conversely, the greater the capital in existence the more difficult it is to reestablish profitable capital accumulation, since it becomes more and more difficult to draw from the surplus value created the funds needed for further expansion, because the magnitude of these funds is determined by the magnitude which capital has already attained, and since the exploitation of a given number of workers has social and natural limits. Additional workers have to be exploited, but to make this possible on the basis of the high organic composition of capital already attained means a gigantic mass of surplus value to be invested in additional fixed capital. We repeat that not every amount of capital suffices for this purpose. The 10 billion mentioned by the Brookings Institution, large as this sum is, may be too small for the establishment of a productive apparatus capable of exploiting such an additional mass of workers as would be necessary to make this investment profitable and hence possible. Under such conditions this surplus would in reality represent a shortage of capital; and it is to this question that the Brookings Institution should direct its further attention, the more so because, as we shall presently see, in its recommendations it points directly to the unavoidable necessity of a tremendous enlargement of the productive apparatus and of the army of labor.

In a Marxist explanation of the phenomenon, the 10 billions remained idle because they could not be invested profitably; for such an investment it proved to be too small. And so the rate of accumulation slowed down, the absolute number of workers decreased as productivity was further increased without an accompanying sufficient capital expansion. The contradiction

between profit production and need for accumulation was too great. A relative stagnation ended in an absolute stagnation, that is, in crisis and depression. To overcome this situation and permit the investment of new profit-creating capital the surplus value had to be increased. There was no other way in the past, there is no other way at the present time; though it is already questionable whether this way is still open in view of the terrific need of surplus value for purposes of accumulation. We must refrain in this paper from expatiating further on Marx's theory of over-accumulation; but from what has been said it follows indubitably that capital expansion is not determined by the consumptive needs, but that these needs can be continuously provided for only so long as a progressive capital accumulation is possible.

If the Brookings thesis were correct, all that would be necessary to permit the full use of the productive capacities and possibilities, including the idle surplus ready for investment, would be a shift in the distribution of income leading to an enlarged consumptive demand. And this is precisely what the Brookings proposes to do; but the method chosen for accomplishing this task defeats the proposal and also invalidates the thesis on which it is based. Moulton rejects the redistribution of income in favor of an increase in consumptive demands by political means or by some form of taxation such as proposed by the majority of contemporary social reformers. Such methods as redistribution, it is said, must fail because the "first requirement is to increase progressively the total amount of income to be divided." This point of view, naturally, excludes all ideas dealing with the curtailment of production or productivity, either by way of a stoppage of technological development or by a shortening of the working time. Nor is the Brookings satisfied with the frequently advocated idea of "buying back what the workers have produced," because it is evident "that as yet, and in all probability for many years to come, the procurement of higher wages through labor organization cannot be counted on to effect a broad nationwide increase in the purchasing power of the masses of the people. It can at best benefit only certain groups. In so doing it tends to affect other groups adversely." But even if organization could bring about a general rise in wages of the working class—an impossibility under capitalism—surely the Brookings would not choose this way of increasing consumption, since it is a democratically impartial institution which desires a policy benefitting all the social classes.

The Brookings prefers the competitive method of distributing the national income, because "the interest of the profit-maker coincides with the welfare of the consumers" and because "increased efficiency makes possible lower prices, while the profit incentive insures the actual reduction of prices." This price-reducing policy is assumed to benefit the entire population and to readjust the distributive mechanism with a view to enlargement of consumption and full use of the productive capacities. The entire history of capitalism is assumed to support this point of view. Of late, however, "the method of continuously expanding markets through a persistent reduction of prices as efficiency increases has in considerable measure ceased to operate." The monopolization of capital is adduced as the most important reason for this unfortunate situation; but at the same time the tendency to price stabilization is recognized as the logical outcome of previous capitalist development. Nevertheless, writes Moulton, "to seek the acceleration of economic progress by means of price reductions is not to attack the system of private capitalism, but rather to return to the very logic upon which that system was justified and extolled by both lay and professional

students of the economic process during the days when the system was assuming its present general character." This position is really a flight from actual life into a mystic fatalism, covered up by an artificial optimism. The present stagnating capitalism has obviously grown out of free competitive capitalism, and it is impossible to attack the present without also opposing the past. And it is also obvious that the future is not destined to follow the pattern of the past, but immediately that of the present. From any point of view nothing else is possible. This bewailing the loss of competition through monopolization, capital concentration and artificial control schemes is, as a matter of fact, without any real basis, since all this has not *essentially* changed the features which capitalism possessed in its youth. In the classic capitalism of free competition there were monopolies, and in monopoly capitalism there is competition, although of a more mature sort. From general competition among small capitalists there arose, with the concentration of capital and as a result of this process, that of the monopolies among each other. A restriction of competition on the national scale brought about an intensification of the competitive struggle in the world market. If on the one hand competition waned as regards complexity, it was only in order to wax in other forms as regards intensity. However much the classic capitalism may differ from its present monopolistic successor, still the one cannot be set over against the other: monopoly capitalism is the old-age manifestation of *laissez-faire*ism, that is, it is simply *monopolistic laissez-faire*. That "freezing of the status quo" brought about by the tendency to stabilize prices, and which seems so wrong to the Brookings Institution, is in reality and in the last analysis, as a method of destroying small capitalists, itself nothing else but an indication of sharpened competition. Whoever wants to have further capitalist progress must be in favor of the strangulation of the weaker capitalist groups, must be in favor of further monopolization, of a still greater elimination of national competition to strengthen the competitive power of capitalism on the basis of what capitalism really is—a world economy. To base the policies of present-day capitalism on the principles of the past means something other than the mere enlargement of mass consumption to further a greater use of the productive capacities. To a consistent thinker it can only mean the enlarged repetition of previous processes, since the real basis of the capitalist system today is the same as at its beginning, namely production for profit, appropriation of an ever greater portion of the products of labor. If this is possible, an enlarged but *essentially* identical result will be obtained: more concentration of capital, stricter monopolization, more difficulties, greater crisis. The very thing proposed by the Brookings Institution for effecting a better balance between consumption and production will, if put into practice, have created a greater gap.

VI

The ideas developed by the Brookings Institution have found a practical application in the volume *The Recovery Problem in the United States*. This book, which is really indispensable to the lay as well as professional student of economics, we shall not consider at present with reference to all its contents or the tremendous and important factual material which it presents; we are here interested only in its conclusions and in so far as they deal with the present situation in relation to the general theories developed in *Income and Economic Progress*. While "the present world recovery movement has been under way for approximately four years," still the authors recognize that "the degree of economic improvement has been far from sufficient to absorb unemployment and to restore former standards of living."

This also holds for America, in which recovery "has been appreciably less than that in many other countries." In what way, now, has this limited improvement been rendered possible? By a better distribution of income in favor of the broad masses, which is supposed to lead to a fuller use of the productive capacities? Or by opposite trends, by a further curtailment of mass purchasing power, both in relation to current production and to the situation prior to 1929? Has the process of recovery so far attained justified the thesis of the Brookings Institution developed in *Income and Economic Progress*? There is nothing in the whole volume on the *Recovery Problem in the United States* which would permit an affirmative answer.

Real recovery, as measured by previous periods of recovery after crisis, has not as yet occurred. The downward trend of capital was stopped and turned into a new upswing, but so far it has been unable to surpass the production level of 1929. For a real boom, the 1929 level must be surpassed by far, but as yet nothing of the sort can reasonably be expected. The Brookings Institution describes the existing situation quite well in saying that it "is one of delicate adjustment and precarious balance. In a very real sense the world stands at the cross roads. We may move gradually forward along a broad front, achieving progressively higher levels of well-being; or we may suffer a reversal of current trends and enter upon a new period of recession, involving further deterioration of living standards and bringing a new era of disorganization, the consequences of which no one can foresee."

The deepest point of world economy was reached in the middle of 1932. From that time on to the present the trend is upward. But four years of such favorable development have been unable to bring about a real prosperity. If the old business cycle were still in effect, a new crisis could be expected by 1938; but this crisis would set in at a lower point of production than that on which the boom of 1929 was broken. In other words the new crisis would establish the fact that capitalism was unable in the whole course of a complete business cycle to surpass the production level previously attained; it would justify the statement that capitalism is unable to overcome its stagnant character. The present depression would have failed to fulfill its function, that is, to clear the way for further progressive advance of capitalist society. But if depression has changed, then so also has prosperity. If the former is unable to function in the well-known ways, then also the latter will look different from previous periods which were called prosperous. "Prosperity" would then be nothing more than a breathing spell in an irresistible downward trend of capital.

Leaving this question aside, however, the Brookings account of the extent to which recovery has been attained invalidates its theoretical consideration in relation to income and economic progress. According to its own and all other serious studies on the subject yet published and viewed from the standpoint of world economy, just as in the years from 1921 to 1929, so also in the years from 1932 to the present time the production of means of production has increased almost four times as fast as production for direct use. In order to bring about a real prosperity it should have been much faster, and the gap in relation to consumption goods production should have been wider. As it was, this development could only reach this still insufficient level by a great increase of production from public funds and by the tremendous armaments programs. If, in spite of the fact that it was a period of general rationalization, the years from 1921 to 1928 were already relatively unsatisfactory in regard to profitability of capital, the expectations cannot be great with

reference to the profit needs for further progressive accumulation on the basis of the present character of the development of production.

"Production and employment are basic and ultimate points of reference in modern industrial life," says the Brookings Institution correctly. In this relation the *Recovery Problem* presents the following picture: "On a full-time basis such as prevailed in 1929, more than 20 per cent of the nation's labor force remains unutilized in 1936; by the middle of 1936 we were still 25-30 per cent below the adjusted 1929 level in both manufacturing production and total output of goods and services." A very unfavorable situation, indicating the difficulties of capitalism in bending the economic reality to suit its need for profit. After two years of depression the productivity of the workers, which previously had increased after the crash of 1929, declined considerably, making the reestablishment of profitability still more difficult and indicating the impracticability of a decisive reduction in wages as a means of over-coming the crisis. What can be saved in that way may be wholly offset by a decrease in productivity, showing once more that *only an accelerated accumulation is a real solution* for capitalist difficulties. But this failed to come about, in spite of a rate of interest lower than ever before in capitalist history. The favorable circumstances for capital expansion were largely offset by many arising circumstances of an unfavorable character; as for instance, by an increase of socially unavoidable expenditures which ate from the already insufficient surplus value. The Brookings Institution notes that the degree of recovery so far attained was rendered possible only by a further spread between the actual output of the workers and their actual income. More value and surplus value was realized on a given capital, and this, in conjunction with the re-organization of capital during the crisis, and also with the governmental spending program, permitted the face-lifting of capital which we have now witnessed. In so far as "prosperity" was advanced by an increase in governmental spending, made possible by extending the credit facilities, it can be justified only in case it leads to a real prosperity which will cover the deficit to which this artificial method has given rise. So that the somewhat happy present situation is clouded by forebodings about the future. Still, the basic need remains, in the eyes of the Brookings Institution, "the absorption of the unemployed in the production of additional goods and services in the field of private industry." Under this general formula, to raise the standard of living of wage workers, as the Institution desires, "involves necessarily increasing the spread between the wage rates and prices. An increasing spread between wage rates and prices depends fundamentally upon increasing the efficiency of production." But wages are the price of labor power. If prices fall, so also the price of labor power, otherwise profits would be reduced; but, says the Brookings Institution, "only inconsequential increases in wages can be achieved by trenching upon the profits." To justify this contradictory statement is equivalent to denying the value-price character of labor power and if prices decline wages also must fall, unless wages were not to be subject to the law of value. But then the whole capitalist system would be an impossibility, as this system depends for its existence on the fact that labor power is a commodity subject to the law of value. What the Brookings Institution means to say is that prices should fall faster than the price of labor power, thus giving more actual purchasing power to the workers; a thing which characterizes the whole development of capitalism, but which also means that the productivity of the workers must increase more rapidly than consumption. But this process has

led to the present situation; to repeat the process is equivalent to bringing about the same situation, which, however, the Brookings Institution is out to change, and the gap between production and consumption, which the Institution wants to be closed, will be widened. To be sure, the Brookings proposals are quite in harmony with the needs of capitalism; any other sort of proposals is so much nonsense. That this is the only field of action for capital is recognized by the Marxist also. But with this the all-embracing, all-groups-of-society-benefiting, socio-economic philosophy contained in the writings of the Brookings Institution is reduced to a fairy tale.

More profits, more surplus value: that is the real need of capital. If that need is satisfied, capitalist society will be happy all around. For this reason, and in spite of its philosophy, the Brookings Institute recognizes as favorable factors in the present situation: the low rate of interest, the reduction of private indebtedness; increasing efficiency of production and fuller utilization of capacity, making possible higher wages and higher profits in relation to prices; a sound banking and monetary policy; expansion of foreign trade, and the accumulated deficiency of production as a stimulus to further expansion. For all these factors increase the profitability of capital. And it looks with sorrow on all the existing unfavorable factors, such as the difficulties involved in maintaining fiscal stability, the danger of price inflation, the present trend in the labor movement toward a more self-seeking activity, the ill-conceived industrial and social legislation, and also the unstable international situation.

Aside from its illusions and errors, the Brookings Institution recognizes one thing with extreme clarity, and that is that the present system, based on profit production, can only function and proceed as such. In helping to make this clear and in pointing out all the capitalist problems arising from this situation, the Brookings Institution has rendered a service both to the capitalist class and also to Marxism.

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